

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Earl K. Long Medical Center
Health Care Services Division
Louisiana State University
Health Sciences Center
State of Louisiana
Baton Rouge, Louisiana

June 25, 2003



Financial and Compliance Audit Division

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**EARL K. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA**
Baton Rouge, Louisiana

Management Letter
Dated June 11, 2003

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 25, 2003



OFFICE OF
LEGISLATIVE AUDITOR
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June 11, 2003

**EARL K. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As a part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2003, we considered the Earl K. Long Medical Center's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the medical center's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*.

The annual financial information provided to the Louisiana State University System by the Earl K. Long Medical Center is not audited or reviewed by us, and, accordingly, we do not express an opinion on that information. The medical center's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

In our prior management letter on the Earl K. Long Medical Center dated August 15, 2001, we reported findings related to unlocated movable property and lack of controls over payroll. These findings have not been resolved by management and are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration.

Internal Control Deficiencies Over Movable Property

For the second consecutive audit, Earl K. Long Medical Center (EKLMC) did not maintain adequate accounting controls over movable property. Louisiana Revised Statute 39:325 requires agencies to conduct an annual inventory of movable property and report any unlocated movable property to the Louisiana Property Assistance Agency (LPAA). In addition, Louisiana Administrative Code 34:VII:313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. Good internal accounting controls also require that adequate procedures be in place to ensure that (1) the location of all movable property items is monitored and updated frequently; (2) amounts recorded in the financial statements are materially correct; and (3) movable property is properly safeguarded against loss arising from unauthorized use.

LEGISLATIVE AUDITOR

EARL K. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Management Letter, Dated June 11, 2003

Page 2

For the two years under review, EKLMC reported unlocated property as follows:

Year Originally Unlocated	Fiscal Year 2002 Inventory		Fiscal Year 2003 Inventory	
	Number of Items	Acquisition Cost	Number of Items	Acquisition Cost
2003			16	\$33,439
2002	30	\$95,584	12	38,133
2001	62	153,848	59	147,179
2000	26	75,035	26	75,035
1999	3	6,752	*	
Total at year-end	121	\$331,219	113	\$293,786

*After property has been unlocated for three years, it may be removed from the property listing during the fourth year.

Approximately 29% of the total unlocated items in 2002 and 11% of the total in 2003 relate to new items unlocated since the last inventory. In addition, 62% of the total in 2002 (86 items totaling \$203,875) and 55% in 2003 (70 items totaling \$162,800) are computers or computer-related items. At the time of the physical inventories, the medical center had 2,300 property items totaling \$11,279,495 in 2002, and 2,340 items totaling \$11,265,341 in 2003.

In addition, although a listing of all property added to the LPAA system is made and forwarded to the Health Care Services Division (HCSD) administrative offices for inclusion in the American Appraisal property system, all property is not being added to that system. Eleven of 16 items (69%) purchased during the 2002 fiscal year and recorded in the LPAA system could not be located on the American Appraisal listing for the same period.

Management has not placed sufficient emphasis on conducting its annual physical inventory of movable property, especially for those items that have been identified as unlocated for more than one year. Errors in additions to the American Appraisal system are not being identified because personnel at EKL do not receive the American Appraisal listing timely. Failure to identify and locate all movable property could result in the misstatement of the movable property assets in the financial statements and exposes the medical center to possible loss, theft, and misuse of its assets.

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HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA**

Management Letter, Dated June 11, 2003

Page 3

Management should strengthen its procedures for conducting the physical inventory of movable property, continue its efforts to locate movable property reported as unlocated in previous years, and determine the reasons why the movable property could not be located. Management should also perform a complete reconciliation between LPAA and American Appraisal to ensure that the two systems are in agreement and should ensure that all authorized additions and deletions are made to the American Appraisal listing each year. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Lack of Controls Over Payroll

For the second consecutive audit, EKLMC did not consistently follow its internal control procedures that are designed to ensure that the medical center has complied with Civil Service rules and regulations and that time and attendance records supporting expenses for personal services are complete and accurate.

A test of time and attendance and leave records disclosed the following conditions:

1. One of 34 (2.9%) summary pay reports for the pay period ending May 12, 2002, was not approved by the director of the department.
2. Two of 34 (5.9%) employees tested did not have direct deposit enrollment authorization forms in their personnel files to support a payment by this method. Sixteen of 34 (47.1%) employees did not include a voided check and/or deposit slip with the Direct Deposit Enrollment Authorization form as required.
3. Five of 34 (14.7%) employees did not sign an affidavit acknowledging the receipt of the Time and Attendance Collection System (TACS) training and a copy of the policy and procedures required by EKLMC.
4. Six of 34 (17.7%) employees did not have an employee withholding exemption certificate (L-4) in their personnel files to support their state tax deductions. Three out of 34 (8.8%) employees did not have an employee's withholding allowance certificate (W-4) to support their federal tax deductions.

LEGISLATIVE AUDITOR

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HEALTH SCIENCES CENTER
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Management Letter, Dated June 11, 2003

Page 4

5. Two of 34 (5.9%) employees did not have an earned income credit form (W-5) in their personnel files to support their earned income credit received during a pay period in 2002.
6. Three of 34 (8.8%) applications for leave were not properly prepared.
7. Eleven of 34 (32.4%) authorizations for overtime were not properly prepared.
8. Ten of 34 (29.4%) leave accrual records did not accurately reflect the employee's compensatory leave balance.
9. An employee from the Operating Room took compensatory leave, but the compensatory leave was not posted to the employee's leave accrual record.
10. A registered nurse from the Medicine Clinic received the incorrect premium pay. As a result, the nurse was overpaid \$36.
11. A registered nurse received pay for the compensatory leave earned at the incorrect rate of pay. As a result, the nurse was overpaid \$237.
12. Holiday pay for regular part-time employees has not been calculated correctly since the implementation of PeopleSoft (July 2000). Holiday pay in PeopleSoft is automatically calculated at eight hours for all employees even though the normal workday for part-time employees is less than eight hours. Salary/Wages Services has not identified part-time employees who are eligible for holiday pay nor adjusted the holiday pay of regular part-time employees to reflect the actual hours for which they are eligible. As a result, regular part-time employees have been overpaid for holidays.

Failure to enforce adequate controls over the recording of employees' work time and leave increases the risk that fraud and errors could occur and not be detected timely.

Management should comply with medical center policies and procedures related to time and attendance. In addition, management should strengthen its procedures related to reviews by Salary/Wages Services to ensure that thorough reviews are performed and that corrections are made timely. Management concurred with many points of this finding and outlined corrective action for those items. However, management did not

LEGISLATIVE AUDITOR

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HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA**

Management Letter, Dated June 11, 2003

Page 5

concur with portions of the finding related to items 2, 5, 8, and 9 (see management's response in Appendix A, pages 2-4).

Additional Comments: We concur that every employee required to have an earned income credit form for the 2003 calendar year had one in his/her personnel file. However, certain employees also received the earned income credit for the 2002 calendar year, but these forms were not retained. We recognize that leave records are cumulative and that K-leave does not have a separate column showing amounts earned each pay period. However, in certain cases, we could not calculate from the current leave balance to the amount of leave that should have been present for the pay period tested. The Director of Human Resources agreed in writing that item 9 was an error at the time of the audit.

Lack of Control Over On-Call Pay

EKLMC did not ensure that employee on-call time and attendance records accurately reflected the hours worked and that job descriptions reflected the employee's actual responsibilities. EKLMC also did not enforce existing policies to ensure that on-call payroll transactions were valid, authorized, and correctly entered into the Time and Attendance Collection System (TACS). Enforcement of policies and procedures ensures compliance with Civil Service, federal, and state laws and regulations and reduces the risk that payroll/personnel related errors and/or fraud could occur and not be detected in a timely manner.

Audit procedures identified the following weaknesses in control procedures and noncompliance with existing policies related to one EKLMC employee who is also a full-time employee (Lieutenant Colonel) with the East Baton Rouge Parish Sheriff's Office.

1. A review of 23 certified pay reports for this one employee who received only on-call pay totaling \$12,152 during the period May 12, 2002, through March 2, 2003, disclosed the following:
 - The pay reports show this employee as being on-call from 7:00 a.m. to 9:00 p.m. Monday through Friday and 24 hours per day on Saturday and Sunday for a total of 236 hours per pay period. The authorized on-call hours are from 5:00 p.m. to 7:00 a.m. Monday through Friday and 24 hours per day on Saturday and Sunday. This employee is also employed full-time at the Sheriff's office to work between the hours of 8:00 a.m. and 4:00 p.m. Monday through Friday. According to the Transaction Processing System (TPS) Manager and *Timekeeper Operations and Procedures*

LEGISLATIVE AUDITOR

EARL K. LONG MEDICAL CENTER
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER
STATE OF LOUISIANA

Management Letter, Dated June 11, 2003

Page 6

Manual, employees receiving on-call pay may not work for a different employer during the hours on-call. Furthermore, EKLMC is staffed with security guards from the East Baton Rouge Sheriff's office 24 hours each day; therefore, this employee's on-call hours overlap with the duty hours of regularly assigned deputies.

- The TACS employee operations manual requires all employees to clock in and out when reporting to and leaving from work. EKLMC pre-programmed the employee's on-call hours into the TACS system; therefore, the employee was not required to report to work by clocking in or out. However, the annual evaluation for this employee included clocking in and out as a point in the review process.
 - The employee signed each pay report certifying the hours worked even though these hours conflicted with the hours worked at his primary place of employment.
2. Civil Service SF-1 documents list the employee as unclassified, full-time earning \$16 per hour. According to EKLMC Human Resources, the individual is an unclassified, part-time employee ineligible for employee benefits. Effective January 1, 2000, the employee was authorized to earn \$18 per hour, with a three-hour minimum. The employee was not paid at the \$16 or \$18 per hour rate. The employee is on-call for 236 hours per pay period and is paid \$2.25 per on-call hour.
 3. The approved Performance Planning and Review form describes the employee's job description and performance ratings. However, the job description does not agree with the employee's actual job duties as described by both the employee and his supervisors.

Management has not placed sufficient emphasis on compliance with existing policies and procedures for recording employees' work hours and ensuring that employee job descriptions detail the employee's actual job duties. As a result, errors and/or fraud could occur and not be detected timely.

Management should ensure that employee time and attendance records accurately reflect the hours worked and that job descriptions reflect the employee's actual responsibilities and should also ensure that on-call payroll transactions are valid, authorized, and correctly entered into TACS. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 5-6).

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HEALTH SCIENCES CENTER
STATE OF LOUISIANA**

Management Letter, Dated June 11, 2003

Page 7

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the medical center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the medical center should be considered in reaching decisions on courses of action. Findings relating to the medical center's compliance with applicable laws and regulations should be *addressed immediately by management.*

This letter is intended for the information and use of the medical center and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Grover C. Austin', is written over a faint, circular, dotted background.

Grover C. Austin, CPA
First Assistant Legislative Auditor

RC:MWB:PEP:dl

[EKLMC03]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



Health Sciences Center

HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

Margaret W. Bumm, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, La. 70804-9397

Dear Ms. Brumm:

Earl K. Long Medical Center concurs with the finding of Internal Control Deficiencies Over Movable Property. We have implemented new procedures since the 2001 audit and have shown much improvement. We will continue to review policy and procedures in order to reduce loss of assets.

Prior to the changes, EKL listed 62 items as unlocated. In fiscal year 2002, EKL reported 12 items as unlocated. In the current fiscal year we are showing 16 items as unlocated. This improvement is due to conducting spot checks of inventory, a new policy and procedure manual, and documenting unlocated property on the Department Manager's PPR.

I appreciate the efforts of your staff in working with us toward achieving full financial and operational compliance.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred Cerise".

Fred Cerise
Chief Executive Officer

Cc: Ken Laney, Internal Audit



Health Sciences Center

HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

May 6, 2003

Mr. Grover Austin, CPA
First Assistant Legislative Auditor
Office of Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Austin:

This is our official response to the Earl K. Long Medical Center payroll audit report dated April 23, 2003 regarding lack of controls over payroll:

1. We concur with your finding that the summary pay report for the pay period ending May 12, 2002, was not approved by the department director. Pay reports are returned to departments on two separate occasions for approval and are then held in a pending file. Year-end auditing is completed at the close of the fiscal year and we make a final effort to collect needed signatures prior to closing out the fiscal year payrolls. Any unapproved pay reports remaining as of June 30, 2002, are re-issued for signatures prior to closing out.
2. We concur with your finding that two employees did not have direct deposit authorizations in the payroll record to support a payment by this method. The two employees have been contacted and required to complete new direct deposit paperwork.

We do not concur with your finding that sixteen employees did not include voided checks with the Direct Deposit Enrollment Authorization form. Inclusion of a voided check is not mandatory. In many instances personal checks are not available for 4-6 weeks because employees are establishing new bank accounts. In these situations and in order to process direct deposits timely we use the banking information provided on the direct deposit authorization form which includes all pertinent information. While the form indicates that a voided check should be attached to the form, it is not critical to processing direct deposits. We have a control mechanism to ensure accuracy of direct deposits; the PeopleSoft payroll system is designed with a two deposit pre-note default. Two direct deposits are pre-noted (dummy runs) to ensure accuracy of banking information. An error notice is received from the payroll center if the information is incorrect and we have adequate time to make necessary corrections.

3. We concur with your finding that five employees did not have signed TACS affidavits. During the initial conversion to TACS all employees were required to attend mandatory in-services that were offered on numerous occasions. We followed-up and requested the attendance of those employees who had not attended, but there were a few employees who did not comply.
4. We concur with your finding that six employees did not have employee withholding exemption certificates (L-4) and three employees did not have employee's withholding allowance certificates (W-4) in the personnel file.
5. We do not concur with your finding that two employees did not have current earned income credit forms (W-5) on file. These documents were in the employee folders.
6. We concur with your finding that three applications for leave were not properly prepared. Employees, timekeepers and payroll staff will be re-oriented to policies and procedures regarding proper completion of leave slips.
7. We concur with your finding that eleven applications for overtime were not properly prepared. Employees, timekeepers and payroll staff will be re-oriented to policies and procedures regarding proper completion of overtime slips.
8. We do not concur with your finding that the leave accrual records did not accurately reflect the employee's compensatory leave balance. At the time that the compensatory leave balance report was run for auditor's review the balances had been adjusted because another payroll had been processed and the report is automatically adjusted. In the future, and at the recommendation of the auditor we will print and retain a copy of each pay-periods compensatory leave balance report as it occurs.
9. We do not concur with your finding that k-leave was not posted to the record. K-time earned does not have a separate column for what was earned but is reflected in the ending balance.
10. We concur with your finding that a registered nurse in the Medicine Clinic *received the incorrect premium pay in the amount of \$36.* Nursing supervisors will be re-oriented to policy and procedure that requires a new premium pay worksheet when nurses move from one unit to another to ensure accuracy of premium pay.
11. We concur with your finding that a registered nurse was overpaid term pay in the amount of \$237. The \$237 overpaid is being recouped. Payroll staff have been directed to pay closer attention to the transactions that have been made when entering and auditing payroll records to ensure that adequate controls are in place whereby errors of this nature do not occur in the future.

12. Holiday Pay was automatically set at 8 hours per day for all employees eligible for Holiday Pay during our conversion to Peoplesoft. After conferring with our Headquarters Office it has been decided that we will make a manual adjustment on the payline to include holiday pay for those hours that would have been normally worked for part time employees.

We hope that our response is satisfactory and we will make every effort to correct the deficiencies noted in your report. We are taking immediate steps to address and correct each finding and plan to have all deficiencies corrected during the next fiscal year. In addition to making the necessary corrections we will strengthen our payroll procedures to ensure compliance with Civil Service, federal, and state laws and regulations.

Ms. Wanda Piper-Doyle, Human Resources Director, and Ms. Gale J. Major, Payroll Manager, are the assigned contact persons responsible for corrective action. If you have additional questions or comments or if we can be of additional assistance to you please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred Cerise", with a stylized flourish at the end.

Fred Cerise, M.D.
Chief Executive Officer

xc: Ms. Sue Tolbert, Chief Financial Officer
Ms. Wanda Piper-Doyle, HR Director
Ms. Gale Major, Payroll Manager



Health Sciences Center

HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

May 6, 2003

Mr. Grover Austin, CPA
First Assistant Legislative Auditor
Office of Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana 70804-9397

Dear Mr. Austin:

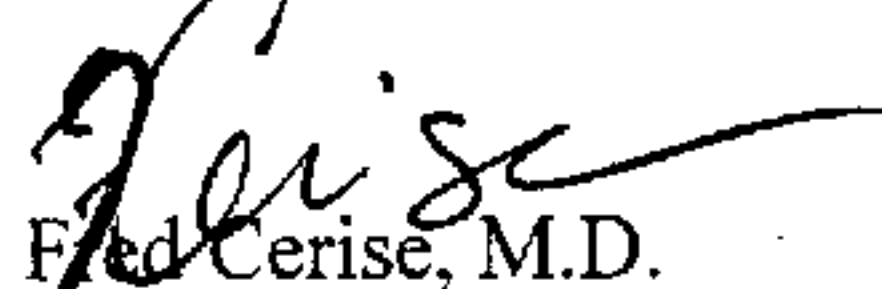
This is our official response to the Earl K. Long Medical Center payroll audit report dated April 23, 2003 regarding lack of control over on-call pay:

1. We concur with your finding that the pay reports from May 12, 2002, through March 2, 2003, were incorrect for the employee who is also a fulltime employee with the East Baton Rouge Parish Sheriff's Office. The employees' payroll reports for the time period in question have been corrected. The authorized on-call hours are from 5:00 p.m. to 7:00 a.m., Monday through Friday and 24 hours per day on Saturday and Sunday are now reflected in the corrected pay reports.
2. The employee is unclassified and authorized to work a maximum of 32 hours per week at an hourly rate of \$16 in addition to being paid \$2.25 per hour call; the employee was not paid the \$16 or \$18 per hour rate because he did not clock-in to work.
3. We concur in part with your finding that the job description did not accurately reflect the employee's actual job duties. The employee's job description has been revised to include additional job duties that better reflect the employee's relationship with the Hospital.

We hope that our response is satisfactory and we will make every effort to correct the deficiencies noted in your report. We are taking immediate steps to address and correct each finding and plan to have all deficiencies corrected during the next fiscal year. In addition to making the necessary corrections we will strengthen our payroll procedures to ensure compliance with Civil Service, federal, and state laws and regulations.

Ms. Wanda Piper-Doyle, Human Resources Director, and Ms. Gale J. Major, Payroll Manager, are the assigned contact persons responsible for corrective action. If you have additional questions or comments or if we can be of additional assistance to you please do not hesitate to contact us.

Sincerely,



Fred Cerise, M.D.
Chief Executive Officer

xc: Ms. Sue Tolbert, Chief Financial Officer
Ms. Wanda Piper-Doyle, HR Director
Ms. Gale J. Major, Payroll Manager